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## Pacific International Lines adds capacity to Asia-ECSA service

Rob Ward, Brazil Special Correspondent | Jun 04, 2018 11:29AM EDT

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Dozens of shippers have complained for months about the east coast of South America trade lane's lack of space.  
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[Pacific International Lines \(https://www.joc.com/maritime-news/container-lines/pacific-international-lines\)](https://www.joc.com/maritime-news/container-lines/pacific-international-lines) (PIL) has again surprised the container shipping industry and added capacity to the Asia-to-east coast of South America (ECSA) service — a decision that will turn its fledgling entry into that trade lane from a fortnightly to a weekly service this week.

Earlier, sources told JOC.com that the Singapore-based carrier was preparing to add more tonnage as the freight rates on this trade lane had been "surprisingly strong," despite PIL's addition of five vessels back in April. Further, sources in [Brazil \(https://www.joc.com/geography/brazil\)](https://www.joc.com/geography/brazil) have confirmed that PIL will launch in June a weekly service from Asia to the ECSA, on the back of rising freight rates and growing cargo volumes to/from both Argentina and Brazil, and due to a lack of space to handle that growth, particularly on the head-haul southbound lane. PIL will add 16,000 TEU of capacity, which will boost overall capacity on the trade lane to 360,000 TEU.

The bottom line for shippers: at least initially, Asia-ECSA rates are not likely to decline much, as the extra container space added is modest. However, if [ocean carriers \(https://www.joc.com/maritime-news/container-lines\)](https://www.joc.com/maritime-news/container-lines) sense demand and either increase vessel size or another service is added, then that could affect rates.

### A lack of space on the trade lane

Dozens of shippers have complained for months about the trade lane's lack of space. It had 18 carriers squeezed into three joint services as late as 2016, in order to stop massive losses for ocean carriers, who were dealing with sub-\$600 per TEU rates on the headhaul China to Brazil for most of 2015. One example of the trade's softness then: in January 2016, one box was loaded for just \$100.

After [Hanjin Shipping's bankruptcy and demise \(https://www.joc.com/special-topics/hanjin-shipping-bankruptcy\)](https://www.joc.com/special-topics/hanjin-shipping-bankruptcy) and other mergers, there were 15 carriers squeezed into just three strings prior to the PIL launch, and shippers — including many automobile companies in Brazil's ABC industrial area near São Paulo — complained about inadequate space for their auto parts imports and exports to/from Asia, and the subsequent high freight rates. The rates have been among the highest in the world during the past year, at times exceeding \$3,500 per FEU for the Shanghai to Santos trade. More recently, spot rates — according to Drewry, the Shanghai Containerized Freight Index, and a JOC.com survey — have moderated somewhat and now average about \$2,200 to \$2,500 per FEU for Shanghai to Santos.

One freight rate analyst said he didn't think that the addition of five more vessels, with an average of about 3,200 TEU (which is an additional 16,000 TEU for the trade lane) would add sufficient extra capacity to have a "dramatic effect on freight rates" from [China \(https://www.joc.com/geography/china\)](https://www.joc.com/geography/china) to Brazil and [Argentina \(https://www.joc.com/geography/argentina\)](https://www.joc.com/geography/argentina).

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"If you do the calculation and add that 16,000 TEU to the existing 360,000 TEU, you are only increasing the capacity by around 4.44 percent," said Patrik Olstad Berglund, the CEO of [Xeneta](https://www.joc.com/maritime-news/long-term-asia-europe-contracts-64-percent-last-year-xeneta-reports_20170317.html), ([https://www.joc.com/maritime-news/long-term-asia-europe-contracts-64-percent-last-year-xeneta-reports\\_20170317.html](https://www.joc.com/maritime-news/long-term-asia-europe-contracts-64-percent-last-year-xeneta-reports_20170317.html)) the rate management platform. "I don't think that will be affecting the freight rates too much. However, if the carriers increase vessel size and another full service with vessels averaging 9,000 TEU starts up [which would be 10 x 9,000 for a weekly service] then that would be a different ball game. You have to keep reminding yourself though, that this is a volatile trade lane and things can change very rapidly."

The main goods shipped from China to Brazil are electronic goods, toys, consumer goods, machinery, and components; one of the main exports from Brazil is chicken.

Ricardo Santin, the executive director for the Brazilian Association for Animal Protein, told JOC.com that the reduction of seven strings down to three in the Far East to ECSA trade lane had harmed his members' bottom lines, as it had led to major increases in freight rates and relatively few options for services from the key export ports for chicken and pork: namely, Itajai, Navegantes, Itapoa, Paranagua, and Rio Grande. Brazil exports about 250,000 TEU of white meat annually to more than 160 countries, worth \$8.2 billion.

"We have had far fewer options for exporting to Asia since the concentration of carriers that occurred back in 2016," stated Santin, who is also the vice president of the International Poultry Association. "So, we are very pleased indeed to see [PIL] open up this new service as it will bring in much-needed capacity and, hopefully, more choice and lower rates. "We export a lot of chicken to the Middle East and this opens up more possibilities in that region, with transshipment, and also we are hoping to expand considerably into Indonesia later this year, so the more capacity on this trade lane the better it is for our members."

A consultant who works for PIL confirmed to JOC.com that the first vessel — the 3,200-TEU Kota Machan — will launch the new weekly service and will call at Ningbo, Shekou, Singapore, Rio de Janeiro, Santos, Paranagua, Itapoa, Navegantes, Montevideo, and Buenos Aires. On the return leg back to Asia: Buenos Aires straight to Singapore, Hong Kong, then Shanghai (plus Santos on inducement).

"We are confident the demand is there and that a weekly service is what PIL's customers require," the consultant said.

The end of the line is Buenos Aires and the Kota Machan will arrive there on July 3.

### Northbound call at Port of Santos

PIL said a northbound call at the [Port of Santos](https://www.joc.com/port-news/south-american-ports/port-santos) (<https://www.joc.com/port-news/south-american-ports/port-santos>) will be added "subject to inducement," but the signs coming from shippers and terminals in the Brazilian port city are that there will be at least two if not three successful "induced" calls per month.

"PIL is working hard to get the northbound Santos call as a fixed-day regular call," the PIL consultant said. "PIL has connections in Brazil for all over the world, and of course en route to Asia there are connections to east coast of Africa, the Middle East, and Arabian Gulf and we may look to add calls to South Africa in the future; we are studying this."

The Singapore-headquartered company added that the slots it currently takes out on the Multicarrier Loop 1 vessel-sharing agreement (VSA) operated by CMA CGM, Cosco, Evergreen, and Yang Ming would continue "until the end of July."

Robert Grantham, a consultant with Solve Shipping, the Navegantes-based consultancy, said right at the beginning of the PIL new service that an independent, fortnightly service with small vessels was a "guaranteed loss-maker" but he believed back then, and still does today, that PIL is playing a clever, well-structured game.

"They basically want to be a core player in this market, so they are setting out their stall at the table ready to be offered a slice of the cake as and when the contracts for the current Hamburg Süd and Maersk Line VSA configurations come to an end at the end of this year and when the VSAs on this trade lane then go through their expected changes," said Grantham, an expert on this trade lane, after working several years as the country manager for China Shipping Group.

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